

Message Text

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ORIGIN ARA-10

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C O N F I D E N T I A L STATE 089522

LIMDIS

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TAGS:APUB, EFIN, EMIN, ETRD, PE

SUBJECT: SOUTHERN PERU COPPER CORP. (SPCC) NEGOTIATIONS

REF: LIMA 3423

1. BARBER OF ASARCO TELLS US THAT PRIMMIN MERCADO ON APRIL 28 ASKED A LAWYER FOR NORTHERN PERU COPPER CORP TO TRANSMIT A MESSAGE TO ASARCO. MERCADO REPORTEDLY SAID THAT ASARCO HAS ONE LAST CHANCE TO COME UP WITH AN ACCEPTABLE OFFER FOR THE CUAJONE FINANCING. OTHERWISE, GOP MUST CONSIDER THE FORMATION OF A MIXED COMPANY OR EXPROPRIATION. MERCADO ADDED THAT ASARCO'S NEW PROPOSAL SHOULD REFLECT THE FOLLOWING REQUIREMENTS: (A) NO LONG-TERM CONTRACTS FOR COPPER SALES; AND (B) ALL COPPER IS TO BE REFINED AT
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ILO REFINERY FROM THE TIME THAT INSTALLATION GOES ON-STREAM. MERCADO CONTINUED TO THE EFFECT THAT THE BASIC PROBLEM INVOLVES THE 15-YEAR CONTRACTS FOR THE SALE OF COPPER.

MERCADO IDENTIFIED MINISTER OF TRANSPORTATION MENESES AS THE STRONGMAN IN CABINET MEETINGS WHO INSISTS THAT PERU MAINTAIN CONTROL OVER ITS NATURAL RESOURCES. HE ALSO ALLEGEDLY SAID THAT ASARCO AND SPCC HAVE LOST CREDIBILITY WITH THE GOP, THAT PERU DOES NOT NEED ASARCO, AND THAT BANK OF AMERICA HAD OFFERED DOLS 150 MILLION IN CREDITS FOR THE DEVELOPMENT OF PERU'S NATURAL RESOURCES, WHILE A GERMAN COMMERCIAL BANK HAD OFFERED DOLS 70 MILLION FOR THE SAME PURPOSE.

2. ACCORDING TO BARBER, THE SPCC EXECUTIVE COMMITTEE MET EVENING OF APRIL 30 AND CONCLUDED THAT MERCADO STATEMENTS MUST BE TAKEN SERIOUSLY AS AN ULTIMATUM AND THAT 15-YEAR CONTRACTS FOR THE SALE OF COPPER WILL BE MOST DIFFICULT FOR GOP TO ACCEPT, DESPITE FACT THAT GOP ITSELF AUTHORIZED SPCC ABOUT ONE YEAR AGO TO SEEK FINANCING ON THOSE TERMS. ELIMINATING THE 15-YEAR CONTRACTS WOULD FORCE THE SCRAPPING OF THE CURRENT FINANCING PACKAGE.

3. MERCADO'S MESSAGE, IF ACCURATELY CONVEYED, HAS SERIOUS IMPLICATIONS IN TERMS OF POSSIBLE FUTURE INVESTMENT DISPUTE BETWEEN USG AND GOP. WE THINK IT DESIRABLE THAT AMBASSADOR BRING TO ATTENTION OF GOP AT EARLY DATE OUR HOPE THAT DIFFERENCES WITH SPCC CAN BE RESOLVED AND PROJECT GO FORWARD. AMBASSADOR MIGHT CONSIDER USING OCCASION OF PRESENTATION OF CREDENTIALS FOR THIS PURPOSE IF SUITABLE OPPORTUNITY ARISES. FOR EXAMPLE, CUAJONE PROBLEM COULD BE RAISED IN CONTEXT OF OUR MUTUAL SATISFACTION OVER CONCLUSION OF INTER-GOVERNMENTAL AGREEMENT AND WITH RESPECT TO THE PREVIOUS ANTICIPATION BY BOTH GOVERNMENTS THAT THE AGREEMENT WOULD REMOVE LAST OBSTACLE TO COMPLETING FINANCING OF CUAJONE. AMBASSADOR MIGHT STATE THAT USG CONCERNED BECAUSE WE UNDERSTAND THAT, ALTHOUGH THE BASES FOR OBTAINING FINANCING FOR THE PROJECT HAD BEEN AGREED TO BY THE GOP AND SPCC ABOUT A YEAR AGO, NEW CONDITIONS HAVE BEEN RECENTLY RAISED BY PERU WHICH IMPERIL THE FINANCING PACKAGE AS IT NOW ARRANGED. AMBASSADOR MAY SUGGEST TO VELASCO THAT IT WOULD BE USEFUL IF HE COULD RECEIVE MR. CHARLES

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BARBER TO DISCUSS THIS PROBLEM IN MORE DETAIL. RUSH

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